ESTEC SYSTEMS

2009 Annual Report

Management Discussion & Analysis

2008/2009

Edmonton – 30 September 2009.

Forward-looking Statements

Certain statements in this report may be deemed to be forward-looking statements within the meaning of the federal and provincial securities laws. Although management believes the expectations reflected in these forward-looking statements are based on reasonable assumptions, forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results and performance of the Company to be materially different from any future results and performance expressed or implied by such forward-looking statements. Among these risks and uncertainties are:

- changes in the markets in general economic conditions;
- the extent, duration and strength of any economic recovery in the markets in which the company operates;
- changes in the Oil & Gas drilling market;
- the cost and availability of debt and equity financing;
- our ability to realize anticipated cost savings from our internal initiatives and to otherwise create and capture benefits of scale;
- our ability to obtain at reasonable cost, adequate insurance for catastrophic events, such as earthquakes, hurricanes and terrorist acts;
- changes in interest rates;
- other risks and uncertainties.

The forward looking statements should not be read as guarantees of future performance or results, and no assurance can be given that the expectations will be realized. The Company assumes no obligation to update or supplement forward-looking statements that become untrue because of subsequent events. Without limiting the foregoing, the words “believe”, “expect”, “anticipate”, “intend”, “estimate”, “plan” and similar expressions identify forward-looking statements.

Summary of activities

Despite the recession in the general economy we have managed to grow our sales by 51% over the 2008 fiscal year. While we expect to be able to grow our sales again in the 2010 fiscal year, it is unlikely that we will be able to achieve the same percentage growth as 2007 and 2008 were poor performance years. Sales growth in 2009 has been driven by changes we made in the sales/marketing department. Our current backlog of work will allow us to maintain the higher sales levels through the second quarter of the 2010 fiscal year.

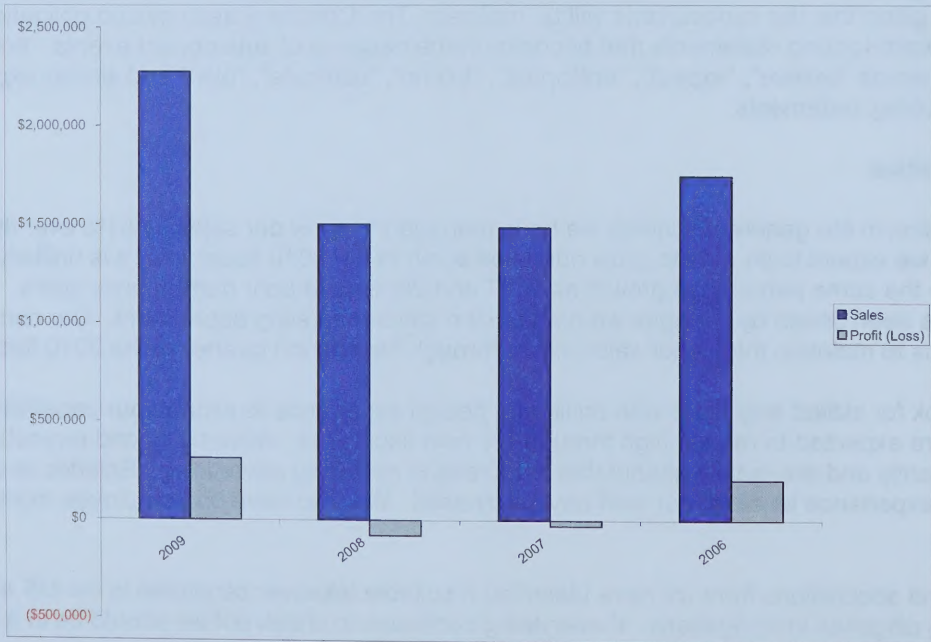
We continue to look for skilled engineers with drilling rig design experience to expand our capabilities. Recruiting costs are expected to remain high through the next fiscal year. Advertising and promotion expenses have risen significantly and are mainly attributable to increased recruiting advertising. Salaries and benefits have risen as the experience levels of our staff have increased. We also have one employee more than at this time last year.

On the mergers and acquisitions front we have identified a suitable takeover candidate in the US and continue to perform the due diligence investigations. If everything continues to check out we should be in a position to make a commitment in the second quarter of fiscal year 2010.

Selected Annual Information

	Year ended June 30, 2009	Year ended June 30, 2008	Year ended June 30, 2007	Year ended June 30, 2006
Total Revenues	2,274,494	1,501,239	1,481,851	1,742,538
Income/(loss) before discontinued operations and extraordinary items	312,330	(77,992)	(28,047)	110,433
Basic income/(loss) per share	.03	(0.01)	(0.003)	.01
Diluted income/(loss) per share	.03	(0.01)	(0.003)	.01
Net income/(loss)	312,330	(77,992)	(28,047)	203,284
Basic income/(loss) per share	.03	(0.01)	(0.003)	.02
Diluted income/(loss) per share	.03	(0.01)	(0.003)	.02
Total Assets	834,749	717,839	537,409	726,360
Total long-term financial liabilities	365,000	373,968	326,907	335,691

Revenue from our engineering consulting rose steadily through the 2006 fiscal year. The end of the 2007 fiscal year and the beginning of the 2008 fiscal year, the Oil & Gas drilling sector went through a major pull back. The Oil companies radically reduced the drilling activity in an attempt to force the drilling contractors to reduce prices. This had an effect on our business which is dependant to a large extent on the activity in the Oil & Gas drilling sector. While activity in the Oil & Gas drilling sector has not significantly increased, toward the end of the 2008 fiscal year and the beginning of the 2009 fiscal year, investment in new drilling rig designs has returned to near normal levels. This pullback is a normal part of the business cycle for the Oil & Gas drilling sector. Sales in the 2009 fiscal year have been significantly improved by changes we made in the sales/marketing department.



Summary of Quarterly Results

	For the 3 months ended 30 June 2009	For the 3 months ended 31 March 2009	For the 3 months ended 31 Dec. 2008	For the 3 months ended 30 Sept. 2008
Total Revenues	$ 610,879	622,114	530,496	511,005
Income/(loss) before discontinued operations and extraordinary items	$ 163,694	43,071	43,177	62,388
Basic and diluted income / (loss) per share	$ .02	0	0	.01
Net income/(loss)	$ 163,694	43,071	43,177	62,388
Basic and diluted income / (loss) per share	$ .02	0	0	.01

	For the 3 months ended 30 June 2008	For the 3 months ended 31 March 2008	For the 3 months ended 31 Dec. 2007	For the 3 months ended 30 Sept. 2007
Total Revenues	$ 372,155	410,188	375,809	343,087
Income/(loss) before discontinued operations and extraordinary items	$ (1,213)	27,334	(31,080)	(73,033)
Basic and diluted income / (loss) per share	$ 0	0	0	(.01)
Net income/(loss)	$ (1,213)	27,334	(31,080)	(73,033)
Basic and diluted income / (loss) per share	$ 0	0	0	(.01)

The variation in sales is due to the oil & gas sector economic activity. The engineering revenues have been significantly impacted by the slow down in drilling activity during the 2007/2008 fiscal year. The 2008 and 2009 sales have been significantly improved by changes in our sales/marketing department.

Liquidity

The company has positive working capital. Over the next year the company expects to meet all cash requirements from cash flow. While the company has a significant amount of its receivables invested in a small number of clients, these funds are largely attributable to insurance clients and the insurance company has reserves allocated to pay these accounts. Management believes it has appropriately managed the company's credit risk.

Capital Resources

The company has a $250,000.00 line of credit available for any emergent capital outlays or other cash flow requirements. As of the end of June, this line of credit is not being used. Capital expenditures planned for the coming year are expected to be covered out of operating cash flow and leveraging existing assets. However the company has engaged a mergers and acquisitions consultant to assist us in finding a suitable takeover candidate. Should a suitable candidate be found, the company may go to the market to raise a portion of the cost of the take-over.

Transactions with related parties

During the year the Company had business transactions with corporations controlled by certain directors of the Company. These transactions, which were at market prices, are as follows:

	For the twelve months ended 30 June 2009	For the twelve months ended 30 June 2008
Payment of rent to 262233 Alberta Ltd.	$ 90,000	$ 90,000
Due to directors, non-interest bearing, unsecured	$ 166,911	$ 167,682
Due to corporations controlled by directors, non-interest bearing, unsecured	$ 198,089	$ 206,286
	$ 365,000	$ 373,968

Loans payable to related parties in the amount of $365,000 (2008 - $373,968) have no fixed terms of repayment and the parties waived their right to receive any repayment in the current fiscal year, therefore these amounts have been classified as long term.

Included in trade accounts payable is $3,005 (2008 - $1,863) owing to a director.

Equity Transactions

During the year 50,000 stock options were cancelled with an exercise price of $0.10; no options were granted.

Off Balance Sheet Transactions

Top drive manufacture: The Technology Licensing Agreement between Farr Canada, a division of McCoy Corporation (MCB: TSX) and Allan R. Nelson Engineering (1997) Inc. provides for royalty payments to Allan R. Nelson Engineering (1997) Inc. in relation to the licensing for the manufacture and sale of the top drives based upon designs prepared by Allan R. Nelson Engineering (1997) Inc.

Farr Canada has hired a dedicated product manager who is marketing the top drive and has established a facility for manufacturing top drives. Top Drive sales typically have a long lead time. We anticipate that sales will start when the economy starts to show signs of growth for the oil & gas drilling sector.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and advances from related parties.

Fair value
The carrying amount of the Company's cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the short-term maturities of these instruments.

The fair value of the advances due to related parties are less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

Credit risk

The Company is exposed to credit risk through trade receivables and work in progress. In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historic trends, and other information.

Financial Instruments

The Company is subject to a concentration of credit risk with respect to $ 107,604 in accounts receivable from the Company's three largest customers at June 30, 2009.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate operating line. At June 30, 2009 the operating line was not drawn on and therefore fluctuations in interest rate would not affect the results of the Company.

Market risk

The Company is exposed to market risk through its reliance on the oil industry. Management believes the risk faced by the Company with regard to market risk is an acceptable risk faced in the ordinary course of business.

Future Accounting Standards

The Canadian Institute of Chartered Accountants (CICA) has issued several new accounting standards which will affect the Company's financial statements in subsequent fiscal years.

a). Convergence with International Financial Reporting Standards (IFRS)

The Accounting Standards Board ("AcSB") establishes financial accounting and reporting standards for use by Canadian entities. It also participates in the development of internationally accepted accounting standards. The AcSB is accountable to the Accounting Standards Oversight Council, an independent body established in September 2000 by the CICA. On February 13, 2008, the AcSB announced that the use of International Financial Reporting Standards ("IFRS") is required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP. Entities will be required to provide comparative IFRS information for the previous fiscal year. The Company is evaluating the impact of the adoption of IFRS. Management recognizes the new accounting policies, and has investigated their impact on the company financial statements. The transition to IFRS on June 30, 2012 is expected to proceed smoothly.

b) Business Combinations, Consolidated Financial Statements and Non-Controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations ("Section 1582"), Section 1601, Consolidations ("Section 1601"), and Section 1602, Non-Controlling Interests ("Section 1602"). These sections replace the former Section 1581, Business Combinations, and Section 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements (January 2008).

Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. Management has evaluated these changes and has determined that there should be no problems implementing them.

Risk and Uncertainty

The following factors among others could cause our actual results to differ materially from those projected in our forward-looking statements:

The effects of fluctuations in interest rates or currency values
The effects of war or terrorist activities
The effects of disease or illness on local, national or international economies
The effects of disruption to public infrastructure
The effects of disruptions to our internal IT infrastructure
The effects of industry or worldwide economic or political conditions
The effects of regulatory or statutory developments
The effects of competition in the geographic or business areas in which we operate
The effects of undetected fraud
The actions of management and staff
Potential liability claims as a result of the work we perform
Credit risk associated with accounts receivable
The effects of technological changes.

Investors and the public should carefully consider these factors, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when relying on these statements to make decisions with regards to ESTec. Except as required by law, we do not undertake to update any forward looking statements, whether written or verbal that may be made from time to time by the organization, or on its behalf.

Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of the company's disclosure controls and procedures and assessed the design of the company's internal control over financial reporting as of June 30, 2009, pursuant to the requirements of Multilateral Instrument 52-109. Management has concluded that weaknesses exist in the segregation of duties.

Management is currently reviewing procedures to minimize these weaknesses as much as possible.

Other MD&A Requirements

Additional information relating to ESTec Systems and its subsidiaries can be found on SEDAR at www.sedar.com. Press releases announcing activities of the company will be posted on our web site www.estec.com.

On Behalf of the Board of Directors – September 30, 2009
Anthony B. Nelson
President

Corporate Directory

Directors & Officers

H. Margaret Nelson, Director, CFO

Allan R. Nelson, Director

Anthony B. Nelson, President, Director

David E. Wright, Director

Barbara E. Fraser, Director

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Stock Exchange Listing

The shares of ESTec Systems Corporation are listed on the Toronto Venture Exchange
Trading Symbol: **ESE**

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ESTEC SYSTEMS CORP.

Consolidated Financial Statements

Years Ended June 30, 2009 and 2008

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AUDITORS' REPORT

August 14, 2009
Edmonton, Alberta

To the Shareholders of ESTec Systems Corp. :

We have audited the consolidated balance sheets of ESTec Systems Corp. as at June 30, 2009 and 2008 and the consolidated statements of income, comprehensive income and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Accountants

ESTEC SYSTEMS CORP.

Consolidated Statements of Income, Comprehensive Income and Deficit

Years Ended June 30, 2009 and 2008

	2009	2008
REVENUE	**$ 2,274,494**	$ 1,501,239
DIRECT EXPENSES	**109,646**	80,114
GROSS PROFIT *(95%; 2008 - 95%)*	**2,164,848**	1,421,125
EXPENSES		
SELLING,GENERAL AND ADMINISTRATIVE EXPENSES *(Schedule 1)*	**1,823,370**	1,475,340
AMORTIZATION OF PROPERTY AND EQUIPMENT	**25,085**	22,719
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	**4,063**	174
	1,852,518	1,498,233
NET INCOME (LOSS) BEFORE INCOME TAXES	**312,330**	(77,108)
INCOME TAXES *(Note 7)*	**-**	884
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**312,330**	(77,992)
DEFICIT - BEGINNING OF YEAR	**(1,231,791)**	(1,153,799)
DEFICIT - END OF YEAR	**$ (919,461)**	$(1,231,791)
BASIC AND DILUTED INCOME PER SHARE *(Note 12)*	**$ 0.03**	$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING *(Note 9)*	**10,461,629**	10,461,629

ESTEC SYSTEMS CORP.
Consolidated Balance Sheets
June 30, 2009 and 2008

		2009		2008
ASSETS				
CURRENT				
Cash *(Note 5)*	$	**16,466**	$	-
Accounts receivable		**512,338**		467,478
Work in progress		**57,764**		52,536
Prepaid expenses		**60,539**		42,449
		647,107		562,463
PROPERTY AND EQUIPMENT *(Note 3)*		**111,846**		79,580
GOODWILL *(Note 4)*		**75,796**		75,796
	$	**834,749**	$	717,839
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT				
Bank indebtedness *(Note 5)*	$	**-**	$	210,394
Accounts payable and accrued liabilities		**144,114**		120,172
		144,114		330,566
ADVANCES FROM RELATED PARTIES *(Note 6)*		**365,000**		373,968
		509,114		704,534
SHAREHOLDERS' EQUITY				
Contributed surplus		**12,833**		12,833
Share capital *(Note 9)*		**1,232,263**		1,232,263
Deficit		**(919,461)**		(1,231,791)
		325,635		13,305
	$	**834,749**	$	717,839

APPROVED BY THE BOARD

_________________________ *Director*

_________________________ *Director*

ESTEC SYSTEMS CORP.

Consolidated Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Net income (loss)	$ **312,330**	$ (77,992)
Items not affecting cash:		
Amortization of property and equipment	**25,085**	22,719
Loss on disposal of property and equipment	**4,061**	174
Stock based compensation	-	12,833
	341,476	(42,266)
Changes in non-cash working capital *(Note 13)*	**(44,233)**	(183,084)
Cash flow from (used by) cash flows from operating activities	**297,243**	(225,350)
Cash flows used by investing activity		
Purchase of property and equipment	**(61,415)**	(8,118)
Cash flows used by financing activity		
Advances (to) from related parties	**(8,968)**	47,062
INCREASE (DECREASE) IN CASH FLOW	**226,860**	(186,406)
DEFICIENCY - BEGINNING OF YEAR	**(210,394)**	(23,988)
CASH (BANK INDEBTEDNESS) - END OF YEAR	$ **16,466**	$ (210,394)
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest paid	$ **18,254**	$ 12,054
CASH (BANK INDEBTEDNESS) CONSISTS OF:		
Cash	$ **16,466**	$ -
Bank indebtedness	-	(210,394)
	$ **16,466**	$ (210,394)

1. DESCRIPTION OF BUSINESS

ESTec Systems Corp. (the "Company") owns and operates an engineering consulting firm. The principal operating subsidiary of the Company is Allan R. Nelson Engineering (1997) Inc.

The Company was incorporated under the Alberta Business Corporations Act and is traded on the TSX Venture Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Because the precise determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of financial statements includes the use of estimates and approximations which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Basis of consolidation

These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiary, Allan R. Nelson Engineering (1997) Inc. All intercompany balances have been eliminated.

Revenue recognition

Sales revenue is comprised of revenues from consulting and engineering contracts. It is recorded when the related service is provided, in the amount as determined by the contract for services with the customer, and collectibility is reasonably assured.

Work in progress

Costs recoverable for services provided but not yet billed are shown as work in progress. Cost is measured based on the number of hours allocated to the job multiplied by the hourly payroll rate of the professional and the actual cost of associated disbursements.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Changes to the balances are recognized in income when they are expected to occur. A valuation allowance is provided to the extent that it is more likely than not that future tax assets may not be realized in the near term.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment

Property and equipment are stated at cost less accumulated amortization. Expenditures on major replacements, extensions and improvements are capitalized. The cost of maintenance, repairs and renewals or replacements, other than those of a major nature, are charged to expense as incurred. The Company provides for amortization at an annual rate, which will amortize the original cost to the estimated salvage value over the useful life of the assets.

Amortization is calculated using the declining balance method at the following annual rates:

Computer hardware	20%
Computer software	30%
Equipment	20%
Office equipment	20%
Inspection equipment	20%

The Company regularly reviews its property and equipment to eliminate obsolete items.

Impairment of property and equipment

Property and equipment are tested for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess if the carrying value of the asset over its fair value. No impairment has been recorded in the current fiscal year.

Financial instruments

The Company has designated its financial assets and liabilities as follows:

Financial statement item	*Classification*	*Measurement*
Cash (bank indebtedness)	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Advances from related parties	Other financial liabilities	Amortized cost

Transaction costs
Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception except for held-for-trading securities where the costs are expensed immediately.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill represents the excess of the purchase price paid for Allan R. Nelson Engineering (1997) Inc. over the fair value of the net assets acquired. Management annually reviews the valuation of this goodwill based on the estimated future cash flows of Allan R. Nelson Engineering (1997) Inc. Management will also review the valuation in the event of any circumstances which might have impaired the fair value. It was concluded that no impairment exists in the value of the goodwill at June 30, 2009 or 2008.

Stock based compensation

The Company has a stock option plan that provides for the issuance of stock options to key employees, directors and officers as described in Note 10. The value is recognized over the applicable vesting period as an increase to compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to share capital

Earnings (loss) per share

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method. Under the treasury stock method, deemed proceeds from potentially dilutive securities are considered to be used to acquire common shares at an average stock price during the year.

Shares provided as security for any share purchase financing agreement are excluded from the calculation for the basic earnings (loss) per share. These shares have not been included in diluted earnings (loss) per share as the result is anti-dilutive.

Statements of Cash Flows

The Company is using the indirect method in its presentation of the Statements of Cash Flows.

Leases

Leases are classified as either capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease; all other leases are accounted for as operating leases. At the time the Company enters into a capital lease, an asset is recorded with its related long-term obligation to reflect the acquisition and financing. Rental payments under operating leases are expensed as incurred.

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates. The significant estimates pertain to the physical and economic lives of property and equipment and the recoverability of accounts receivable.

Capital disclosures

In the current fiscal year, the Company adopted new CICA Handbook Section 1535, "Capital Disclosures." This Section establishes standards for disclosing information about the entity's capital and how it is managed, in order for a user of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. This change has been applied retrospectively as the result of a change in primary source of generally accepted accounting principles in Canada and has no effect on the consolidated financial statements of the Company for the years ended June 30, 2009 and 2008, but provided an enhanced level of disclosure.

The required disclosures have been included in Note 14 to the financial statements.

Changes in accounting policies

In the current fiscal year, the Company adopted the newly issued CICA Handbook Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation", which are a primary source of generally accepted accounting principles in Canada. The change is applied prospectively and does not have a material effect on the financial statements of the Company for the years ended April 30, 2009 and 2008, but provides an enhanced level of disclosure

Effective July 1, 2008, the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, "Inventories", which supersedes Section 3030. The new standard introduces significant changes to the measurement and disclosure of inventory and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. In addition, in certain circumstances, write-downs of inventory previously recognized may be reversed.

Adoption of this standard has not had a material impact on the Company's financial statements.

3. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	**2009 Net book value**
Computer software	$ 135,042	$ 86,715	**$ 48,327**
Computer hardware	73,923	34,170	**39,753**
Equipment	31,135	21,947	**9,188**
Office equipment	32,451	21,035	**11,416**
Inspection equipment	17,296	14,134	**3,162**
	$ 289,847	$ 178,001	**$ 111,846**

Amortization provided for in the current year totaled $25,085; (2008 - $22,719).

	Cost	Accumulated amortization	2008 Net book value
Computer software	$ 97,403	$ 75,864	$ 21,539
Computer hardware	71,613	37,255	34,358
Equipment	31,135	19,649	11,486
Office equipment	27,248	19,004	8,244
Inspection equipment	17,296	13,343	3,953
	$ 244,695	$ 165,115	$ 79,580

4. GOODWILL

	2009	2008
Goodwill, at cost	**$ 133,150**	$ 133,150
Accumulated amortization (prior to 2002)	**(57,354)**	(57,354)
	$ 75,796	$ 75,796

5. CASH AND BANK INDEBTEDNESS

Cash and bank indebtedness is comprised of the following:

	2009	2008
Cash in the bank	**$ 16,466**	$ 19,356
Cheques written in excess of bank balance	**-**	(59,750)
Bank operating lines	**-**	(170,000)
	$ 16,466	$ (210,394)

The bank operating line is authorized to a total of $250,000 with interest payable at prime plus 2.00% (2008 - prime plus 1.5%). A general security agreement and limited guarantees from directors and related parties in the amount of $187,500 have been pledged as collateral for the bank operating lines.

6. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Company had business transactions with corporations controlled by certain directors of the Company. These transactions, which were in the normal course of operations and measured at the exchange value agreed between the parties, are as follows:

	2009	2008
Payment of rent to a company controlled by certain directors	**$ 90,000**	$ 90,000

Advances from directors, non-interest bearing, unsecured	**$ 166,911**	$ 167,682
Advances from corporations controlled by directors, non-interest bearing, unsecured	**198,089**	206,286
	$ 365,000	$ 373,968

Loans payable to related parties in the amount of $365,000 (2008 - $373,968) have no fixed terms of repayment and the parties have waived their right to receive any repayment in the current fiscal year, therefore these amounts have been classified as long term.

Included in trade accounts payable is $3,005 (2008 - $1,863) owing to a director.

7. INCOME TAXES

As at June 30, 2009, the Company and its subsidiaries have $618,638 in non-capital losses and $873,241 of net capital losses, subject to confirmation by taxation authorities, which can be used to reduce future income for tax purposes. Net capital losses are not subject to expiry. Non-capital losses expire as follows:

(continues)

7. INCOME TAXES *(continued)*

2010	$ 267,407
2014	229,412
2015	2,155
2027	85
2028	40,475
2029	79,104
	$ 618,638

The potential benefit of $154,660 (2008 - $276,140) of these non-capital losses has not been recorded in these consolidated financial statements as there is uncertainty when this benefit will be used.

(continues)

7. INCOME TAXES *(continued)*

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as of June 30, 2009 are as follows:

	2009	2008
Future income tax assets		
Non-capital losses	$ 154,660	$ 276,140
Capital losses	152,817	152,817
Valuation allowance	(253,433)	(381,622)
	54,044	47,335
Future income tax liabilities		
Work in progress	14,441	16,891
Property and equipment	17,558	3,944
Goodwill	22,045	26,500
	54,044	47,335
Net future tax assets (liabilities)	$ -	$ -

The components of income tax expense are as follows:

	2009	2008
Tax expense (recovery) at the statutory rate of 25% (2008 - 29.5%)	$ 78,083	$ (23,006)
Amortization claimed in excess of capital cost allowance and cumulative eligible capital deduction	-	6,367
Non-capital losses (applied against income) carried forward	(79,358)	11,989
Non-deductible expenses	1,555	4,777
Accounting loss on disposal of capital assets	1,015	51
Change in work in progress	(1,295)	(389)
Permanent differences and other	-	1,095
	$ -	$ 884

8. CONTRIBUTED SURPLUS

The Company uses the fair value based method to account for stock-based compensation. Fair values are determined using the Black Scholes Model. Compensation costs are recognized over the vesting period as an increase to compensation expense and contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, is credited to capital stock.

	2009	2008
Opening contributed surplus	**$ 12,833**	$ -
Fair value of options granted - recorded as compensation expense	**-**	12,833
	$ 12,833	$ 12,833

9. SHARE CAPITAL

Authorized:
200,000,000 Common shares without par value

Issued:

	2009		2008	
	Number of Shares	**Stated Capital**	Number of Shares	Stated Capital
Balance - end of year	**10,461,629**	**$ 1,232,363**	10,461,629	$ 1,232,363

10. STOCK OPTION PLAN

The Company has a stock option plan that provides for the issuance of stock options to key employees, directors, and officers. Stock options allow the holder to obtain one common share for each stock option exercised. These share options vest immediately once they have been granted. Outstanding stock options will expire over a period ending no later than February 7, 2013. The Company has reserved 1,046,162 shares in Treasury to meet share options outstanding, less options already issued.

	Shares		Weighted Average Exercise Price 2009	Number		Weighted Average Exercise Price 2008
Beginning of year	**650,000**	**$**	**0.10**	300,000	$	0.10
Granted	-		-	350,000		0.10
Cancelled or expired	**(50,000)**		**0.10**	-		-
Outstanding at end of year	**600,000**	**$**	**0.10**	**650,000**	$	0.10

At the end of the year there were 600,000 options, with an exercise price of $0.10 and weighted average remaining contractual life of 2.56 years, outstanding.

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and advances from related parties.

Fair value

The Company's carrying value of cash, accounts receivable, and accounts payable and accrued liabilities approximates its fair value due to the immediate or short term maturity of these instruments.

The fair value of the advances from related parties are less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

Credit risk

The Company is exposed to credit risk through trade receivables and work in progress. In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historic trends, and other information.

The Company is subject to a concentration of credit risk with respect to $107,604 in accounts receivable from the Company's largest customer at June 30, 2009.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate risk primarily through its floating interest rate operating line. At June 30, 2009 the operating line was not drawn on and therefore fluctuations in interest rate would not affect the results of the Company.

Market risk

The Company is exposed to market risk through its reliance on the oil industry. Management believes the risk faced by the Company with regard to market risk is an acceptable risk faced in the ordinary course of business

12. DILUTED LOSS PER SHARE

Options to purchase 600,000 common shares that were outstanding as of June 30, 2008 were not included in the computation of diluted earnings per share, since the effect of these options was anti-dilutive.

13. CHANGES IN NON-CASH WORKING CAPITAL

	2009	2008
Accounts receivable	$ (44,860)	$ (216,361)
Work in progress	(5,228)	(1,270)
Prepaid expenses	(18,090)	12,427
Accounts payable and accrued liabilities	23,945	12,120
Income taxes	-	10,000
	$ (44,233)	$ (183,084)

14. CAPITAL DISCLOSURES

The Company's objectives in managing capital are:

i. to safeguard its ability to operate as a going concern, and
ii. to maintain a strong financial position, and
iii. to maintain a low cost of debt

Through its subsidiary Allan R. Nelson Engineering (1997) Inc. the Company has $250,000 line of credit with ATB Financial Services (ATB). ATB has placed conditions on Allan R. Nelson Engineering (1997) Inc. with regards to working capital, debt to equity and debt service. Allan R. Nelson Engineering (1997) Inc. is fully compliant with these conditions at June 30, 2009.

	2009	2008
Related party loans	$ (365,000)	$ (373,968)
ATB Financial Services	-	(170,000)
Total Debt	(365,000)	(543,968)
Cash (Bank indebtedness)	16,466	(40,394)
Net Debt	(348,534)	(584,362)
Shareholders' equity	(325,635)	(13,305)
Total Capitalization	$ (674,169)	$ (597,667)

15. FUTURE ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants (CICA) has issued several new accounting standards which will affect the Company's financial statements in subsequent fiscal years.

a) Convergence with International Financial Reporting Standards (IFRS)

The Accounting Standards Board ("AcSB") establishes financial accounting and reporting standards for use by Canadian entities. It also participates in the development of internationally accepted accounting standards. The AcSB is accountable to the Accounting Standards Oversight Council, an independent body established in September 2000 by the CICA. On February 13, 2008, the AcSB announced that the use of International Financial Reporting Standards ("IFRS") is required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP. Entities will be required to provide comparative IFRS information for the previous fiscal year. The Company is evaluating the impact of the adoption of IFRS..

b) Business Combinations, Consolidated Financial Statements and Non-Controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations ("Section 1582"), Section 1601, Consolidations ("Section 1601"), and Section 1602, Non-Controlling Interests ("Section 1602"). These sections replace the former Section 1581, Business Combinations, and Section 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements (January 2008).

Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

ESTEC SYSTEMS CORP.

Consolidated Schedule of Selling, General and Administrative Expenses *(Schedule 1)*

Year Ended June 30, 2009

	2009	2008
Salaries and benefits	**$ 1,385,610**	$ 1,073,227
Advertising and promotion	**100,749**	46,783
Professional fees	**94,121**	89,490
Rent	**90,000**	90,000
Insurance	**40,072**	55,916
Technology and telecommunication	**22,143**	20,272
Supplies and maintenance	**21,679**	19,805
Repairs and maintenance	**21,067**	17,298
Bank charges and interest	**18,254**	12,054
Public company compliance	**12,703**	13,779
Dues, memberships and business taxes	**11,142**	11,711
Bad debts	**2,286**	8,000
Courier and freight	**2,218**	2,026
Office	**1,326**	2,146
Stock based compensation	**-**	12,833
	$ 1,823,370	$ 1,475,340

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